

VZCZCXRO8876  
RR RUEHCN RUEHGH  
DE RUEHGH #0104/01 0630926  
ZNR UUUUU ZZH  
R 040926Z MAR 09  
FM AMCONSUL SHANGHAI  
TO RUEHC/SECSTATE WASHDC 7693  
INFO RUEHBJ/AMEMBASSY BEIJING 2567  
RUEHCN/AMCONSUL CHENGDU 1789  
RUEHGH/AMCONSUL GUANGZHOU 0245  
RUEHHK/AMCONSUL HONG KONG 1956  
RHEHAAA/NSC WASHINGTON DC  
RUEHSH/AMCONSUL SHENYANG 1780  
RUEHIN/AIT TAIPEI 1577  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEAUSA/DEPT OF HHS WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUEHGH/AMCONSUL SHANGHAI 8327

UNCLAS SECTION 01 OF 05 SHANGHAI 000104

SENSITIVE  
SIPDIS

TREASURY FOR OASIA/INA/HAARSAGER AND WINSHIP  
DEPT FOR EAP/CM, INR  
USDOC PASS BUREAU OF ECONOMIC ANALYSIS  
USDOC FOR ITA DAS KASOFF, MELCHER, OCEA  
STATE PASS USTR FOR STRATFORD, WINTER, KATZ  
NSC FOR LOI, KUTCHA-HELBLING  
HHS FOR OGHA/KULIKOWSKI, ABDON, CUMMINGS AND PASS TO FDA/LUMPKIN  
EMBASSY BEIJING FOR HHS/FDA

E.O. 12958: N/A  
TAGS: [ECON](#) [PGOV](#) [EFIN](#) [ETRD](#) [ELAB](#) [PREL](#) [CH](#)  
SUBJECT: ANHUI FACING SOBERING ECONOMIC REALITY

REF: A. (A) SHANGHAI 96  
[1](#)B. (B) 08 SHANGHAI 449  
[1](#)C. (C) SHANGHAI 103

(U) This cable is sensitive but unclassified and for official use only. Not for distribution outside of USG channels or via the internet.

Summary  
-----

[1](#)1. (SBU) During the Deputy Principal Officer's February 24-27 visit to Anhui Province, provincial and local government officials said that despite initial optimism in the 4th quarter of 2008 that Anhui might avoid the worst of the economic downturn, conventional wisdom now holds that the province will face serious economic challenges in 2009. The Provincial Government continues to emphasize the importance of rural health but is beset by a lack of trained medical personnel, according to officials. The DPO discussed village elections and rural finance with scholars in Hefei, the provincial capital, and also visited a village in northern Anhui. Local officials in Fuyang expressed concern about the impact of the economic downturn at home and directed some of the blame at the United States. End Summary.

The View from an Economic Planner  
-----

[1](#)2. (SBU) Guo Hao, Director of the National Comprehensive Economy Division at the Anhui Development and Reform Commission, said on February 25 that there are signs Anhui's economy is slowing. The economic crisis has had a bigger impact on coastal export-oriented industries than on Anhui, but the province is starting to feel the adverse effects of the slowdown, particularly in core manufacturing industries such as steel and autos, which rely in part on exports. Anhui is the home of Ma'anshan Steel and Chery Automobiles, both of which are affected by slowing trade (see Ref A). According to Guo, Anhui's total trade volume decreased by 20 percent year-on-year in January 2009. Investment also has declined recently, and the

real estate sector is struggling, Guo said.

13. (SBU) The Provincial Government hopes that hosting the 4th Central China Expo in Hefei in April 2009 will help attract investment to the province. Anhui's GDP growth slowed from 12 percent in 2007 to just over 10 percent in 2008, so the province's goal of maintaining 8 percent growth will be more difficult in 2009, Guo stated, as the economic slowdown is likely to continue into the second half of the year. (Comment: Guo's sobering assessment was more pessimistic than the upbeat analysis offered by Anhui officials in October 2008, who at that time were confident the economic slowdown would have little impact on the province. See Ref B. End Comment.)

14. (SBU) The Provincial Government is paying close attention to conditions for Anhui's migrant workers, many of whom were laid off by factories on the coast and returned to the province early to celebrate Lunar New Year and may not yet have found new jobs, Guo said (see Ref C). The most significant problem is in the northern part of the province where population density is the highest. Guo pointed out that several counties in northern Anhui have populations of close to 1 million while counties in the southern and eastern areas have only 300-400,000 people. Local governments have been tasked to help migrant workers find work, by providing both labor information and short-term training. University student employment also is receiving much attention from local governments, he said.

15. (SBU) Anhui welcomes the State Council's announcement in its Number One Policy Document that rural policy would be the Central Government's top priority for the sixth year in a row. Rural issues are very important in Anhui, Guo said, who added that the Provincial Government aims to increase rural

SHANGHAI 00000104 002 OF 005

consumption in line with Central Government objectives. Guo said the impact of this year's drought on the province's wheat harvest is not yet clear, but it is likely to hurt Anhui's total production for 2009. (Note: Zhang Deyuan at Anhui University's San Nong Institute told DPO on February 25 that he is optimistic the drought's impact will be limited. End Note.)

#### Facing Rural Health Challenges

-----

16. (U) Rural health remains very important in Anhui where 70 percent of the population lives in the countryside. According to Xu Hengqiu, Deputy Director of the Anhui Provincial Health Bureau, since 2007, Anhui has placed greater emphasis on resolving rural residents' difficulties seeing a doctor and affording medical care. The Health Bureau's 2007 plan calls for strengthening the province's rural health infrastructure, and aims to build new medical facilities so that within three to five years there will be 1,233 township hospitals and 10,000 village clinics in the province.

17. (U) Constructing new facilities is a small problem, however, compared to the shortage of trained medical personnel in Anhui's countryside, Xu said. The Health Bureau's strategy to improve the quality of the province's rural health professionals focuses on four areas: (1) providing short-term training in Hefei, the provincial capital, as well as county seats, (2) improving on-the-job training, (3) encouraging university graduates with medical specialties to work in the countryside with support from subsidies from rural county governments, and (4) requiring urban doctors to volunteer at least six months for an assignment in the countryside in order to be promoted.

18. (U) Since the launch of the Rural Cooperative Medical Insurance Scheme (RCMS) in 2003, Anhui Province has expanded the coverage of the program to 90.12 percent of rural residents in all of the province's counties. The funding for the program in Anhui has grown to RMB 100 (USD 15) per person with RMB 20 paid by the farmer, RMB 40 by the provincial and local governments, and RMB 40 by the Central Government. A reimbursement-based program, the Anhui Health Bureau also has steadily increased the

level of repayment. Xu claimed that because the RCMS system is organized according to hukou resident registration, migrant workers from Anhui who are living outside the province still can be covered by the RCMS if they continue to pay into the program. They can be reimbursed for medical care received outside Anhui if they can produce receipts and proof of care, Xu stated.

¶9. (U) Because northern Anhui is a poor region, rural residents there receive subsidized medical care, paying lower rates for basic care and to pay into the RCMS program. The Health Bureau is monitoring the return of migrant workers to Northern Anhui. Xu said she does not foresee new health policy-related problems as a result of the workers' return, but all Provincial Government bureaus are following returning migrants and their impact on social stability.

¶10. (U) According to Xu, Anhui's health reforms are in line with the State Council's January 2009 reform plan, which focuses on a more community-based approach. The State Council's plan has been in the works for three years, Xu said, so the final document had no surprises, and there are no conflicts or contradictions between the Central Government's strategy and Anhui's plan. Xu said Anhui has not had any reports of human cases of Avian Influenza (AI), but the Provincial Government is paying close attention to the problem.

#### Promoting Democracy in the Countryside

-----

¶11. (SBU) DPO also discussed Anhui's rural situation with Zhang Deyuan, Deputy Director of Anhui University's San Nong Institute (see also Ref C). Zhang assured the DPO that the funding the

SHANGHAI 00000104 003 OF 005

institute had received from the China Mission's small grants program would be put to good use in 2009-10, as the San Nong Institute works towards spreading and strengthening the "combined election system" in Anhui's countryside. Under this system, villagers are able to nominate and freely vote for candidates for village committee positions. The experiments have increased villagers understanding of democracy as well as governmental accountability in these villages, and Zhang hopes the small grant funding can help to pinpoint areas of improvement and to also conduct seminars and media campaigns to encourage other villages to adopt the system. Zhang said the project would help strengthen grassroots democracy efforts in Anhui. He believes the economic downturn will not have a significant impact on rural political reform, but he acknowledged that process on village elections remains slow.

#### Rural Finance and Start-up Businesses

-----

¶12. (SBU) Lack of access to finance remains an impediment for farmers as well as for returning migrant workers who want to set up new businesses. According to Xie Peixiu, the Deputy Director of the Agricultural Institute at the Anhui Academy of Social Sciences (AASS), rural financial institutions still are not well developed in the countryside, and local governments in Anhui have replicated efforts in other parts of China to develop rural cooperative banks. Pilot rural financial cooperative programs in Huailin and Heshan Counties already have been launched under the supervision of the China Banking Regulatory Commission, Xie said. Without reliable collateral or a developed insurance industry, however, progress on rural finance remains limited, he said.

¶13. (SBU) The Provincial Government would like to encourage returning migrants to set up businesses in rural areas, but the poorly developed financial sector is an even greater obstacle in this case, researchers told the DPO. According to Sun Ziduo, a researcher at AASS and an Advisor to the Provincial Government, migrant workers may be able to utilize their savings to set up small businesses in development zones, but it is next to impossible to apply successfully for business loans because migrant workers do not have collateral. Some banks are

exploring ways to solve this problem, but it remains a major challenge, Sun said.

#### On the Road to Fuyang: Omiao Village

-----

¶14. (SBU) Heading northwest by road from Hefei, the DPO Visited Omiao Village, Yinzhou District in Fuyang near the Anhui-Henan border. DPO met with villagers who are beneficiaries of U.S.-based NGO Heifer International project, which was launched in March 2006 and has received USD 221,000 in support in the past three years. Heifer International plans for 600 families in the area to receive assistance over the course of the project, and 310 families already have participated, including more than 100 in Omiao. With the funding provided by Heifer International, farmers in the area have purchased more than 200 pigs, 80 goats, and 5650 geese to supplement their income through raising livestock, and they also have received training in aquaculture technology, production management, and health.

¶15. (SBU) Visiting the homes of several villagers, DPO noted the contradictions in a place with numerous cell phone towers but no paved roads and DVD players in houses which until recently had no running water. Farmers acknowledged that most of their disposable income is derived from their children who work as migrant laborers in Shanghai and other coastal areas (Ref C).

#### Fuyang Officials Have Local Concerns...

-----

¶16. (SBU) Wang Bin, Director of Fuyang's Development and Reform  
SHANGHAI 00000104 004 OF 005

Commission said Fuyang has a population of 9.78 million and remains an agricultural base in northern Anhui, producing wheat, beans, and sweet potatoes. Fuyang's agricultural policy seeks to continue to increase the quantity of production and improve the quality, he said. Northern Anhui is more backward than Hefei or Wuhu, so Fuyang also aims to promote industrial development, building on the region's petrochemical industry and coal resources. The most significant contribution to Fuyang's economy, Wang acknowledged, is made by migrant workers. Approximately 2 million of Fuyang's workers go outside the city to work in factories and the service sector in Guangdong, Shanghai, Jiangsu, Zhejiang, and Beijing. Migrant worker remittances boost rural incomes in Fuyang, and the majority of migrant workers retain Fuyang hukou resident registrations, so they remain tied to the area. In order to promote Fuyang's urbanization and industrialization, Fuyang has eliminated the urban-rural distinction in the local hukou policy.

¶17. (SBU) Fuyang's government is placing a greater emphasis on social welfare programs, Wang said, including elder care (yanglao baoxian), health insurance (yiliao baoxian), and basic welfare (dibao), but he did not provide statistics on expenditures. He said that migrant workers who have Fuyang hukous can "take the insurance with them" according to the city's insurance reform policy (liudong baoxian gaige). Wang said Fuyang also boasts a strong transportation infrastructure, which he hopes will help attract new investment. Fuyang has four rail lines, is located at the intersection of 3 major highways, ships goods on the Huai River, and now has an airport with flights to Shanghai.

¶18. (SBU) Wang said the local government is taking steps to assist migrant workers who were laid off from their jobs in coastal regions and returned early to celebrate Lunar New Year in Fuyang. (Note: Fuyang identified as a major problem area for early returners by Wall Street Journal Article in December 2008. End Note.) Fuyang's government is promoting industrial development in the city so that the estimated 20,000 migrant workers who have not yet found new jobs outside Fuyang can work at home. There is a new development zone with several new factories in the city, and Wang claimed 40 food products, pharmaceuticals, and clothing companies have opened new facilities in Fuyang. The city's GDP increased by 12 percent in

2008, so Wang is hopeful Fuyang can maintain at least 8 percent growth (bao ba) per the Central Government's exhortation. In fact, Wang asserted, given Fuyang's industrial development efforts, he hopes the city can maintain GDP growth of at least 10 percent. He acknowledged, however, that the agricultural sector's GDP would be hurt in 2009 by the recent drought in Anhui. Fuyang hopes to encourage domestic consumption, including increasing auto sales. (Note: The first floor of the hotel where our meeting took place was packed with Midea (a Guangdong-based company) refrigerators, which according to Wang would be sold to farmers at discount prices. End Note.)

¶19. (SBU) When asked about Anhui's recently announced "Buy Local" guidelines, Wang strongly denied that the guidelines were government policy, rather, they must come from a trade association. The Central Government opposes local protectionist measures, and while a local official "might talk about it in a meeting," the government "never would issue a document like this one." If provincial and local governments succumb to protectionist tendencies, it will "divide the whole country" and "China will be finished." That said, however, the local police forces in Anhui purchase Wuhu-based Chery automobiles in bulk. Local government officials, he said, still prefer driving "more prestigious" foreign brand automobiles. (Note: Guo Hao at Anhui's Provincial Development and Reform Commission also said on February 25 that he does not know of any new "Buy Local" policies in Anhui, and he insisted that companies in the province make business decisions strictly on the basis of price. End Note.)

SHANGHAI 00000104 005 OF 005

...And a Global View

¶20. (SBU) Fuyang's Vice Mayor, Hu Mingying, told the DPO during dinner on February 26 that the city maintains a global view. On the economic crisis, Fuyang does not rely very much on exports (although some Fuyang-based companies do export to the U.S.) so external factors do not directly affect Fuyang's economy, he asserted. However, there are two major indirect effects of the global economic crisis on Fuyang: (1) the "market" has changed as a result of the crisis in many unforeseen ways, and (2) the Central Government will have to adjust its macroeconomic control policies, which will affect Fuyang.

¶21. (SBU) Hu expressed disappointment that there is no U.S. Investment in Fuyang, and he hopes the upcoming Central China Expo will be a good opportunity for Fuyang and other Anhui cities to attract more foreign investment, exchange information with other Central China provinces, and improve coordination with the Central Government.

¶22. (SBU) On President Obama's stimulus plan, Hu was dismissive of the United States own economic problems, said the United States "just better hurry up its economic recovery" for China's sake, and said we had better stop protecting American automakers. Fu was puzzled by U.S. policy decisions to bail out some American banks but not others (Lehman), saying some of those decisions were misguided. (Comment: It sounded a lot like Fu was blaming the United States for all of China's economic problems, almost desperately suggesting that the US "better start consuming again." Although not pointing specifically to Anhui's "buy local" policy, Fu did say China would act in its own economic self-interest and do whatever it takes to protect China's economy. End Comment.) DPO emphasized that the United States and China have a long history of cooperation on many issues, and U.S.-China cooperation would be critical to solve current global problems, including the financial crisis.

CAMP